United States General Accounting Office

GAO

Report to the Honorable Charles E. Schumer, House of Representatives

December 1991

AGRICULTURE PAYMENTS

Effectiveness of Efforts to Reduce Farm Payments Has Been Limited

GAO/RCED-92-2

GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

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December 5, 1991

The Honorable Charles E. Schumer
House of Representatives

Dear Mr. Schumer:

Deficiency payments are the principal payments made to producers who participate in farm programs for wheat, feed grains, cotton, and rice. The payments are designed to protect producers' incomes when crop prices fall below an established target price. The Food Security Act of 1985 limited the payments for those commodities to $50,000 per person annually. Total payments subject to the payment limit reached a peak of about $12.2 billion in fiscal year 1987.

On the basis of our evaluation of the act's effectiveness in limiting payments, we reported in 1987[1] that it was relatively easy for producers to avoid the limit by reorganizing their farming operations to include additional persons. (Persons are broadly defined to be individuals, members of joint operations, or entities such as limited partnerships, corporations, associations, trusts, and estates.) All of these additional persons were entitled to annual payments of up to $50,000 even if they were not actively engaged in actual farming operations.

To prevent producers from avoiding the payment limit, we recommended that the Congress enact a U.S. Department of Agriculture (USDA) legislative proposal that we believed would more effectively tighten payment limits and reduce program costs. This approach would have (1) ensured that individuals actively engaged in farming would not receive more than $50,000 in payments, either as individuals or through business entities, and (2) eliminated the benefit gained by reorganizing in order to maintain or increase total payments to the farming operation. Subsequently, in the Agriculture Reconciliation Act of 1987, the Congress adopted a less rigorous approach in amending the act to prevent producers from further avoiding the payment limit and to reduce farm program costs. The resulting changes went into effect for crop year 1989.

[1] Farm Payments: Basic Changes Needed to Avoid Abuse of the $50,000 Payment Limit (GAO/RCED-87-176, July 20, 1987).

You asked us to determine how effectively these amendments prevented producers from avoiding the payment limit and reduced program payments. You also requested that we suggest changes to the payment limit that could reduce program costs. Finally, you asked us to determine whether USDA's computer systems are effectively monitoring and enforcing the requirements of the $50,000 payment limit.

Results in Brief

In its report accompanying the 1987 amendments, the House Budget Committee estimated that these program changes would save $215 million during 1989 and 1990. USDA has since estimated, however, that the 1987 amendments reduced 1989 payments by only $3.4 million. The amendments had a limited effect in reducing total program payments for the following reasons:

- Under the amendments' equitable reorganization provision, farmers were allowed to reorganize their farming operations, within a specified time period, by including additional individuals to avoid any reductions in total payments to the operation.
- Under the "actively engaged" provision, entities, such as corporations, were considered to be actively engaged in farming if, taken collectively, their ownership made a significant contribution of active personal labor or active personal management. By USDA regulation, shareholders owning only 50 percent of the corporation had to make a contribution in order for the corporation to meet the actively engaged in farming requirement. For example, a corporation owned by 10 individuals could be considered actively engaged in farming even if only one shareholder, owning 50 percent of the corporation stock, contributed significant personal labor and/or management.
- Under the three-entity provision, farmers were allowed to participate in up to three entities, thus qualifying for larger payments because of their ownership in additional entities, such as corporations or joint ventures, and potentially increasing their individual payments up to $100,000.

The equitable reorganization provision was primarily responsible for the limited effectiveness of the payment limit, according to a 1989 report by USDA's Office of the Inspector General.

Regarding our review of USDA's computer systems for monitoring and enforcing the payment limit requirements, we found that the systems operate as intended to prevent persons from being overpaid. This issue is discussed in more detail in appendix I.

Background

The federal government has supported the incomes of farmers since the 1930s. Deficiency payments are designed to protect producers' incomes when crop prices fall below a legally established target price. The amount of the deficiency payment generally varies with the producer's level of production, the market price, and the target price. Concerned about large payments to farm operators and the overall cost of federal farm programs, in 1970 the Congress established an annual limit. In 1980 the deficiency payment limit was set at $50,000 per person and applied to the combined program payments for wheat, feed grains, cotton, and rice. The Food Security Act of 1985 continued this limit. Besides the $50,000 payment limit for these commodities, separate limits have been established for other agricultural programs, such as wool, honey, and disaster assistance. (See app. II.)

Payment limits became a significant issue in the mid-1980s when deficiency payments increased significantly because farming operations became eligible for larger total payments. For example, the corn deficiency payment rate increased from 43 cents a bushel to $1.09 a bushel between 1984 and 1987. Without reorganizing their operations to create additional legal entities that qualified as persons for payments, farmers would have been limited to receiving $50,000 each.

GAO Findings and Recommendations on the 1985 Payment Limit Provision

In 1987 we issued a series of reports (1) evaluating the effect of farm reorganizations and their related USDA program costs and (2) identifying basic changes needed to prevent producers from avoiding the payment limit. In addition, we commented on various legislative proposals to amend the limit. (See the list of related GAO products and USDA Office of the Inspector General reports on payment limits at the back of this report.)

We reported that individuals and other legal entities could avoid the $50,000 payment limit in various ways. Two principal methods were used:

- Individuals formed legal entities, such as corporations, that qualified as new persons within their farming operations.
- Joint operations added individuals or other legal entities that qualified as new persons but were not otherwise engaged in active farming.

For example, a six-member joint venture reorganized to increase the total payment to its operation from $300,000 to $1,050,000. By creating 15 corporations and entering into a joint venture with the corporations,

the 6 owners increased the number of qualifying persons to 21, each eligible to receive up to $50,000. Individual owners were therefore able to increase their eligibility for deficiency payments from $50,000 to $175,000 (one-sixth of $1,050,000) because they could receive payments as members of an unlimited number of legal entities.

Because the number of producers receiving program payments increased substantially from 1984 to 1987—from about 600,000 to 1.9 million—such reorganizations increased program costs. In our 1987 report,[2] we estimated that farm reorganizations added about $328 million to USDA program costs from 1984 to 1986.

Concluding that farmers could easily avoid the payment limit by forming legal entities, we recommended that the Congress adopt USDA's proposed legislative changes to eliminate the advantages of incorporating and adding members to joint operations. Among the proposed changes were (1) limiting to $50,000 the total payment an individual actively engaged in farming could receive, whether the payments were from the individual's own farming operation or from an entity, such as a corporation, in which the individual had an ownership interest and (2) determining the payment limit for each entity on the basis of the number of its owners actively engaged in the farming operation. Active engagement was defined as a significant contribution of capital, land, or equipment and labor or management. We concluded that these changes would reduce reorganizations undertaken to avoid the payment limit because individual payment limits and the number of individuals actively engaged in farming, not the type of organizational structure, would be the determining criteria in applying the payment limit.

Steps to Tighten Payment Limit Provisions Produced Limited Results

The 1987 amendments had a very limited effect in reducing payments because (1) they allowed equitable reorganizations under which farmers could reorganize their farming operations, within a specified time period, to avoid any reductions in their total payments, (2) USDA required that only 50 percent of the ownership of a corporation provide significant contributions of personal labor or active personal management for the corporation to meet the requirement that it be actively engaged in farming, and (3) an individual was allowed to qualify for payments from up to three eligible entities.

[2] Farm Payments: Farm Reorganizations and Their Impact on USDA Program Costs (GAO/RCED-87-120BR, Apr. 1, 1987).

Equitable Reorganization

The equitable reorganization provision of the 1987 amendments provided farmers with an opportunity to avoid payment reductions. Under this provision, producers were allowed to reorganize up through the final date USDA established for entering the farm program for crop year 1989,[3] provided producers did not increase their total payments above the amount they would have received before the amendments.

"Actively Engaged" Provision

Although the amendments did strengthen the requirement that individual owners of farming operations be actively engaged in farming to qualify for payment, the amendments provided that, for corporations or other entities to be considered actively engaged in farming, the collective ownership had to make a significant contribution of personal labor or active personal management to the operation. By USDA regulation, shareholders owning only 50 percent of the corporation had to make a contribution in order for the corporation to meet the requirement for active engagement in farming. For example, a corporation owned by 10 individuals could be considered actively engaged in farming even if only one shareholder, owning 50 percent of the corporation stock, contributed significant personal labor and/or management.

Three-Entity Provision

Although the three-entity provision prohibited individuals from qualifying for payments through an unlimited number of legal entities, it still allowed individuals to receive more than $50,000. Under the provision, an individual could qualify for payments (1) as a person and by holding substantial interests in no more than two other entities engaged in farming operations or (2) by holding substantial interests in no more than three entities.[4] Therefore, under the three-entity provision, an individual could qualify for up to $100,000 in payments per crop year: $50,000 as a qualifying person and up to $25,000 for each of two entities in which he or she held a 50-percent interest.

According to the House of Representatives committee report accompanying the legislation,[5] the three-entity provision was needed because

[3]Reorganizations subsequent to that date were required to meet more stringent criteria. For example, farm acres had to be increased by at least 20 percent.

[4]Under the legislation, an interest of 10 percent or more would be considered substantial. Interests of less than 10 percent could be considered substantial on a case-by-case basis. The rule was changed in the 1990 farm bill to allow the minimal substantial interest to be as low as zero.

[5]Omnibus Budget Reconciliation Act of 1987, Report of the Committee on the Budget, House of Representatives, Report 100-391 (Oct. 26, 1987).

some farmers were engaged in farming operations, such as rice production, that needed more than $50,000 in government payments to be economically viable. According to the report, the average rice farmer would reach the $50,000 payment limit at about 200 acres, but because of the high cost of fixed inputs (such as equipment and irrigation) necessary to cultivate and harvest rice, a farming operation of more than 200 acres is needed to ensure an economically viable farming unit. However, the statute itself did not limit application of the three-entity provision only to rice and other crops with high input costs. Consequently, all proprietors of large farming operations, regardless of need, could benefit from the three-entity provision, which allowed them to receive up to $100,000 in program payments.

The 1987 Legislation Did Not Reduce Payments as Much as Expected

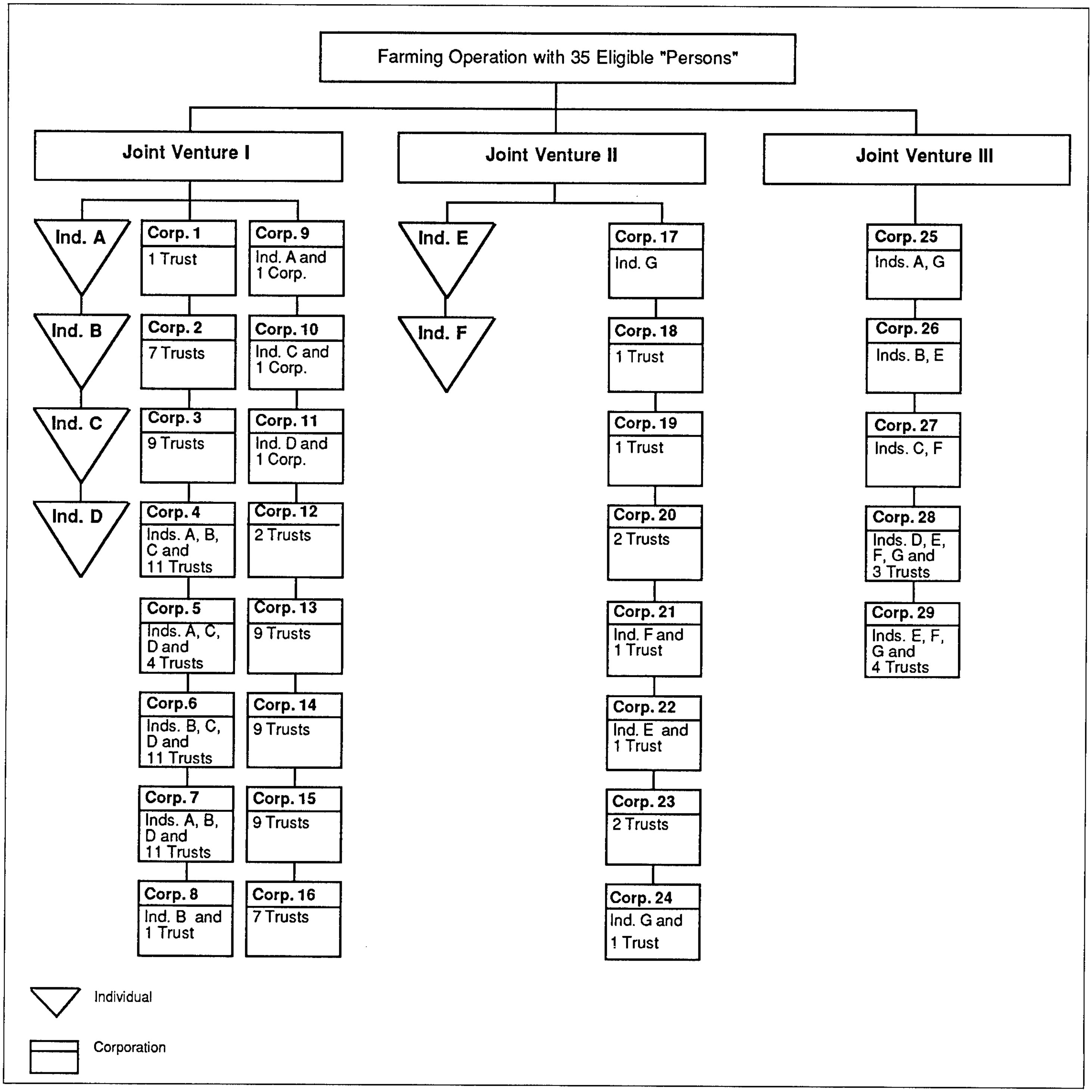
The House committee report had indicated that the legislative changes would reduce program outlays by about $215 million for the 2-year period, including the 1989 and 1990 crop years. However, because the provisions of the 1987 amendments tended to work against each other, little reduction in program payments was achieved. According to a 1991 USDA estimate, program payments for 1989 were reduced by only $3.4 million as a direct result of the provisions. (See app. III.) A USDA assistant deputy administrator responsible for implementing the payment limit told us that while future savings may vary from year to year, he believed that the 1989 savings generally represented the amount that USDA could expect to save in future years.

USDA's OIG concluded in a 1989 report that although USDA had effectively implemented the payment provisions, the expected budget savings were limited, primarily because of equitable reorganizations. For example, according to the report, 12 of the 52 farming operations that were judgmentally selected and reviewed would have lost payments under the more restrictive provisions of the 1987 legislation. All 12 operations reorganized their business structure to avoid losses in payments by transferring ownership in corporate entities to new individuals or individuals with interests in fewer than three entities to ensure that program payments to the farming operation were not reduced. The new owners included family members, employees, and trusts.

In the largest case identified by the OIG, a farming operation reorganized to forestall a $700,000 payment reduction out of $1.4 million in projected 1989 payments.[6] Before the reorganization, some of the operation's owners had substantial interests in as many as 11 entities. Thus, under the three-entity provision, total program payments to the operation would have been substantially reduced. This two-family, 24,000-acre farming operation diversified its ownership into three joint ventures consisting of 35 persons (6 individuals and 29 corporations). Owners of the corporations included irrevocable trusts and the trusts comprised income beneficiaries, including relatives, employees, churches, and a youth organization. With this organization, the farming operation was able to maintain its $1.4 million in 1989 farm payments.

[6] Although this reorganization was approved by the USDA county office, the OIG recommended that USDA review the determination. The producer obtained a court injunction to prevent the review. USDA is appealing the decision.

Figure 1: Organization of a Two-Family Farming Operation



Conclusions

The 1987 legislative effort to tighten up the payment limit requirements and reduce program costs has been only minimally effective. We continue to believe that implementation of the recommendations in our 1987 report would provide an effective way to limit program payments and reduce program costs. These recommendations would reduce the number of individuals eligible to receive payments because any such individual, including those who reorganized under the equitable reorganization provision of the 1987 amendments, would have to be actively engaged in farming and would be subject to the $50,000 limit.

Major provisions of the 1987 amendments—USDA's requirement for active engagement in farming and the three-entity provision—limited program payments but did not completely address the concerns raised in our 1987 report. Our recommendations would provide that payments to an entity be based on the number of owners actively engaged in the farming operation. Under certain circumstances, however, the Congress could provide needed exceptions to the individual $50,000 payment limit. Such an exception could allow producers of certain high-input crops (such as rice) to receive larger payments if the Congress believes it necessary for operations producing those crops to be economically viable.

Matters for Congressional Consideration

If the Congress wants to further tighten payment limits as a means of reducing program costs, it may wish to have the payment limit apply to individuals only, with payments limited to $50,000 for individuals actively engaged in farming whether these payments (1) are earned from their own operations or (2) are attributed to them as owners in one or more entities. A higher limit could be established for specific crops that would not be considered economically viable if held to the $50,000 limit.

Agency Comments

We received written comments from USDA on a draft of this report (see app. IV). USDA supports our matter for congressional consideration that all payments should be attributed to individuals because the agency believes this approach would be the most effective method for simplifying and improving the effectiveness of payment limitation provisions.

In addition, USDA said it would support a recommendation that an individual's contribution of active personal labor or active personal management in a joint operation be taken into consideration only once. According to USDA, this approach would preclude an individual farmer in

a joint operation from also contributing active personal labor or active personal management "with respect to another person." We agree with the thrust of USDA's suggestion but believe the terms of our matter for congressional consideration cover such circumstances.

USDA questioned the advisability of allowing certain farming operations (such as rice farms) to receive larger payments to keep them economically viable. We did not intend to imply that an exception should be made. Such a determination is a matter for the Congress to decide. However, we did want to recognize the argument put forth in the House committee report justifying the three-entity provision on the basis that some farming operations, such as those producing rice, needed more than $50,000 in government payments to be economically viable.

USDA was concerned that our draft report may have implied that the agency made the regulatory requirement on active engagement in farming less demanding for corporations than the legislation required. We clarified the report to eliminate any such implication.

To accomplish our objectives, we reviewed legislation and implementing policies and procedures to determine if opportunities still exist for producers to avoid the effective application of the payment limit and the related impact on the overall cost of farm programs. In addition, we reviewed the work performed by USDA's OIG (which we concluded was reliable) in its evaluation of USDA's implementation of the 1987 amendments; interviewed USDA officials in Washington, D.C., the Kansas City Management Office, and selected state and county offices; and reviewed applicable laws, regulations, handbooks, and legislative histories. We assessed the reliability of computer systems used to monitor the payment limits and reviewed the accuracy of computer-generated reports. In addition to identifying payments for program year 1989, we analyzed computer data on payments made in calendar years 1988 through mid-1991.

We performed our work in accordance with generally accepted government auditing standards between September 1990 and June 1991. As arranged with your office, we plan no further distribution of this report until 7 days from the date of this letter unless you publicly announce its contents earlier. At that time, we will send copies to the Director, Office of Management and Budget; the Secretary of Agriculture; and other interested parties. We will also make copies available to others upon request.

This work was performed under the direction of John W. Harman, Director, Food and Agriculture Issues, who may be reached at (202) 275-5138 if you or your staff have any questions. Other major contributors to this report are listed in appendix V.

Sincerely yours,

J. Dexter Peach
Assistant Comptroller General

Contents

Abbreviations

USDA	United States Department of Agriculture
OIG	Office of the Inspector General
GAO	General Accounting Office

USDA's Computer Systems Effectively Monitor and Limit Payments to Producers

The U.S. Department of Agriculture (USDA) uses computer systems to monitor and enforce the administrative aspects of the payment limitation rules and requirements. Since enactment of the 1987 amendments, USDA has revised and developed computer systems to help county offices oversee the three-entity rule, the "actively engaged" rule, and payments made to producers who operate in multiple counties and states.

We tested the reliability of the computer systems and files (as of April 1991) at USDA's Computer Test Center in the Kansas City Management Office. We designed sample producer payments for single-county and multicounty producers and entered data into the various systems to determine if the systems functioned as intended. We found that the systems

- rejected erroneous producer identification data and informed the operator when no file existed on the producer's eligibility to receive payments;
- communicated between county offices and the Kansas City Management Office and, if a producer reported farming in more than one county office, brought the producer's status to the attention of all counties involved;
- prevented program payments once the $50,000 payment limit ceiling had been reached; and
- restricted program payments to eligible persons and entities.

The designation of a person, however, has remained a judgmental determination not subject to the computer applications.

Not all of the computer systems we tested were in place during the 1989 program year. To assure ourselves that persons were not overpaid in 1989, we judgmentally sampled 1989 program payments and obtained supporting documents from USDA county offices. Generally, no single person or entity exceeded the payment limit. The few overpayments that occurred resulted from administrative errors or involved multicounty farming operations. The overpayments for multicounty operations occurred before computer programs were implemented to monitor such operations. In all 30 cases we reviewed, the county office had either collected the overpayment or had requested a repayment.

Payment Limits and Payments for Selected Programs

Over the years, the Congress has authorized various direct payments to producers to support their incomes. Since 1970 the Congress has placed varying limits on how much one person can receive in a year from many of the programs.

Some of the payment programs, such as deficiency and disaster payments, are also part of a larger annual combined payment limit of $250,000 per person. However, other payment programs, such as the conservation programs and the honey, wool, and mohair programs, have an individual program limit but are not part of any combined payment limit. Therefore, producers can receive program payments in excess of the $50,000 deficiency payment limit.

The legislation and changes in payment limit amounts and the amount and distribution of these payments are summarized in this appendix.

Legislation and Payment Limits

Agricultural Act of 1970 (P.L. 91-524)

This act established an annual $55,000 per person, per crop limit for program payments for the 1971 through 1973 crops of wheat, feed grains, and upland cotton. The limit applied to land diversion payments, wheat certificate payments, and other payments on the basis of parity prices in use at that time. Under this act, a person who grew all three crops could conceivably have earned $165,000 in program payments before being subject to the payment limit—that is, land diversion or other payments of $55,000 for wheat, $55,000 for feed grains, and $55,000 for upland cotton.

Agriculture and Consumer Protection Act of 1973 (P.L. 93-86)

This act established an annual $20,000 per person limit for program payments for combined program payments for the 1974 through 1977 crops of wheat, feed grains, and upland cotton. The legislation introduced the concept of target prices and deficiency payments used today as the means for providing income support payments. The legislation also introduced disaster payments and included disaster payments in the $20,000 payment limit. However, in subsequent legislation, the Congress excluded disaster payments from the payment limit for the 1977 crop year.

Rice Production Act of 1975 (P.L. 94-214)

This act established an annual $55,000 per person limit on payments for rice in 1976 and 1977. This limit did not affect the previously established $20,000 limit set for the combined crops of wheat, feed grains, and upland cotton. Since this limit was in addition to the limit on other crops, a farmer who grew wheat, feed grains, upland cotton, and rice could conceivably have earned $75,000 in program payments before being subject to a payment limit.

Food and Agriculture Act of 1977 (P.L. 95-113)

This act continued to combine wheat, feed grain, and upland cotton deficiency and diversion payments. It also established a separate rice limit through crop year 1979 but combined rice with the other crops thereafter. The established payment limits per person are shown in table II.1.

Table II.1: Payment Limits by Crop, 1978-81

Year	Crop	Payment limit
1978	Wheat, feed grains, upland cotton	$40,000
	Rice	52,250
1979	Wheat, feed grains, upland cotton	45,000
	Rice	50,000
1980	Wheat, feed grains, upland cotton, rice	50,000
1981	Wheat, feed grains, upland cotton, rice	50,000

In addition, the act provided discretionary authority for the Secretary of Agriculture to reduce the loan rate for wheat and feed grains to increase exports. However, if the Secretary reduced the loan rate, farmers were to receive compensation in additional deficiency payments equal to the reduction. These additional deficiency payments, commonly referred to as Findley Amendment payments, were not subject to the payment limit. This legislation continued to exclude disaster payments from the payment limit.

Agricultural Adjustment Act of 1980 (P.L. 96-213)

This act amended the 1977 act to establish a separate annual $100,000 per person limit for disaster payments for the combined crops of wheat, feed grains, upland cotton, and rice. The act applied to the 1980 and 1981 crops. Disaster payments are to reimburse farmers for crop losses that were due to excess moisture, drought, and other natural disasters.

Agriculture and Food Act of 1981 (P.L. 97-98)

This act continued (1) the annual $50,000 per person combined limit for wheat, feed grains, upland cotton, and rice program payments—the limit applied to the 1982 through 1985 crops; (2) the Secretary's authority to reduce the wheat and feed grain loan rate and the provision for Findley Amendment payments not subject to the payment limit; and (3) the annual $100,000 per person limit for disaster payments for the 1982 through 1985 combined crops of wheat, feed grains, upland cotton, and rice.

Extra Long Staple Cotton Act of 1983 (P.L. 98-88)

This act amended the 1981 act to include extra long staple cotton in the list of crop programs subject to the $50,000 payment limit. The act covered crop years 1984 and 1985.

Food Security Act of 1985 (P.L. 99-198)

This act continued the payment limitation provisions of the Agriculture and Food Act of 1981, as amended, through 1990 (including both the $50,000 limit on deficiency payments and the $100,000 limit on disaster payments). In addition, the act allowed farmers to repay loans for cotton and rice at a reduced rate when the market price was less than the loan rate. The subsidies represented by the difference between the loan and repayment rates were referred to as marketing loans and were not subject to the $50,000 per person limit.

The 1985 act also established the Conservation Reserve Program to remove fragile cropland from production. The law provided annual rental payments to producers up to $50,000 per year. This limit was separate from any other limits.

In October 1986 the Congress amended the 1985 act to establish a new $250,000 limit. The new limit did not change but included the existing $50,000 per person limit for deficiency and diversion payments. Other payments subject to the $250,000 limit include disaster payments and various payments not previously subject to a payment limitation, such as Findley Amendment payments and marketing loans. However, this payment limit did not include the Conservation Reserve Program annual rental payments.

Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624)

This act, effective for 1991 through 1995, continued the $50,000 limit on deficiency and diversion payments, the $100,000 limit on disaster payments, the $250,000 combined limit, and the $50,000 limit on conservation reserve rental payments. The law, however, established new annual limits per person, as shown in table II.2.

Table II.2: New Payment Limits Under the 1990 Farm Bill

Program	Payment limit
Findley, etc.	Findley Amendment payments, marketing loan gains, and other specified payments were limited to $75,000. These payments were also subject to the $250,000 combined limit.
Wool	Wool program payments were limited to $200,000 for crop year 1991, $175,000 for crop year 1992, $150,000 for crop year 1993, and $125,000 for crop years 1994 and 1995. These payments were not subject to the combined $250,000 payment limit. Wool program payments are direct income support payments to encourage the continued production of wool.
Mohair	Same as wool program payments. The mohair program payments are direct income support payments to encourage the continued production of mohair.
Honey	Same as wool program payments. Payments under the honey program are any gain realized by a producer from repaying a loan for a crop of honey at a lower level than the original loan, and any loan deficiency payment.
Conservation	A new conservation program—the Environmental Easement Program—has a $50,000 payment limit. The limit is separate from any other limitation, including the combined $250,000 limit.

Table II. 3 summarizes the payment limits by crop year under the various programs.

Table II.3: Selected Payment Limits by Crop Year

Dollars in Thousands

	Crop year									
Program	**1971**	**1972**	**1973**	**1974**	**1975**	**1976**	**1977**	**1978**	**1979**	**1980**
Commodity programs										
Deficiency, land diversion, and other payments[a]										
Wheat	55	55	55							
Feed grain	55	55	55							
Upland cotton	55	55	55							
Combined payment for wheat, feed grains, and upland cotton[b,d]				20	20	20	20	40	45	
Rice[c,d]						55	55	52	50	
Combined payment for wheat, feed grains, upland cotton,and rice[d,f]										50
Combined payment for wheat, feed grains, upland and extra long staple cotton, and rice [f,g,h,j]										
Findley Amendment payment[j]										
Disaster program payments[e,f,g,h,j]										100
Combined limitation for deficiency, land diversion, disaster, Findley Amendment and other payments[i,j]										
Honey, wool, and mohair program payments[j]										
Honey										
Wool										
Mohair										
Conservation programs										
Conservation reserve payment[h,j]										
Environmental easement payment[j]										

Crop year														
1981	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**
50	50	50												
			50	50	50	50	50	50	50	50	50	50	50	50
										75	75	75	75	75
100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
						250	250	250	250	250	250	250	250	250
										200	175	150	125	125
										200	175	150	125	125
										200	175	150	125	125
				50	50	50	50	50	50	50	50	50	50	50
										50	50	50	50	50

[a]Agricultural Act of 1970.

[b]Agriculture and Consumer Protection Act of 1973.

[c]Rice Production Act of 1975.

[d]Food and Agriculture Act of 1977.

[e]Agricultural Adjustment Act of 1980.

[f]Agriculture and Food Act of 1981.

[g]Extra Long Staple Cotton Act of 1983.

[h]Food Security Act of 1985.

[i]Continuing Appropriations Act for Fiscal Year 1987.

[j]Food, Agriculture, Conservation, and Trade Act of 1990.

Total 1989 Farm Program Payments

USDA's deficiency payments totaled about $5.6 billion for crop year 1989. The deficiency payments contributed to total farm program payments of $9.3 billion paid to about 1.5 million payees. (A payee is the individual or organization to whom the payment was actually made and can, therefore, be different from the person who qualified for the payment.) About 16,000 payees received between $50,000 and $100,000, and about 2,700 received $100,000 or more. (See tables II. 5 and II.6.) Although some payees received the larger payments under a single program—such as the dairy termination program, which had no payment limit—most payees received a combination of payments under various programs, some of which had individual payment limitations and some of which did not.

Table II.4: 1989 Farm Program Payments

Type of Payment	Amount
Deficiency	$5,594,502,544
Disaster	1,519,948,996
Conservation reserve (annual)	1,415,137,817
Conservation reserve (cost share)	167,145,926
Agricultural conservation	182,380,275
Dairy termination	181,953,661
Wool	33,580,460
Mohair	47,510,741
Other	171,667,059
Total	**$9,313,827,479**

Table II.5: Level of Payments to Payees for 1989 Farm Program Payments

	Number of payees					
Payment amount in dollars	**Individuals**	**Entities[a]**	**Exempt agencies[b]**	**Others[c]**	**Total persons**	**Total**
$500,000 & over	3	19	3	1	26	$21,355,374
250,000-499,999	15	151	2	6	174	55,875,713
100,000-249,999	695	1,801	3	31	2,530	336,016,409
Total	**713**	**1,971**	**8**	**38**	**2,730**	**413,247,496**
90,000-99,999	394	551	0	11	956	90,649,400
80,000-89,999	597	757	1	13	1,368	115,927,695
70,000-79,999	1,097	962	3	15	2,077	154,637,295
60,000-69,999	2,035	1,535	1	21	3,592	231,763,977
50,000-59,999	5,178	2,655	0	67	7,900	423,762,925
Total	**9,301**	**6,460**	**5**	**127**	**15,893**	**1,016,741,292**
40,000-49,999	10,468	4,036	3	94	14,601	648,440,763
30,000-39,999	20,949	6,318	4	121	27,392	945,406,248
20,000-29,999	44,116	9,254	5	245	53,620	1,306,919,741
10,000-19,000	126,907	16,529	24	412	143,872	2,014,979,691
1-9,999	1,121,592	69,956	286	3,506	1,195,340	2,968,092,248
Total	**1,324,032**	**106,093**	**322**	**4,378**	**1,434,825**	7,883,838,691
Grand total	**1,334,046**	**114,524**	**355**	**4,543**	**1,453,448**	**$9,313,827,479**

[a]Entities are general partnerships, joint ventures, corporations with or without stockholders, limited partnerships, estates, and trusts-revocable or irrevocable.

[b]Exempt agencies are public schools, Indian tribal ventures, and Bureau of Indian Affairs.

[c]Others are federal or state owned land, clubs, churches, and charitable organizations, and those producers who do not fall into the above categories.

Table II.6: Payees Receiving Over $100,000 in 1989 Farm Program Payments

	Examples[a]				
Type Payment	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**
Deficiency			$11,295	$50,000	$32,373
Dairy termination		$400,538[b]	140,766[b]		
Disaster assistance				100,000	10,995
Conservation reserve					49,637
Conservation reserve cover					55,804[b]
Agricultural conservation			2,387	3,500	
Emergency feed			1,934		
Livestock emergency assistance	$50,000				
Wool	448[b]				
Mohair	630,333[b]				
Other	8,661				
Total	**$689,442**	**$400,538**	**$156,382**	**$153,500**	**$148,809**

[a]Payment data are not provided on farm programs for which payees were not eligible.

[b]No payment limit in program year 1989.

Crop Year 1989 Savings From $50,000 Payment Limit Requirement

In 1991 USDA reported on a cost-benefit study of the application of the $50,000 payment limit for crop year 1989. The study determined the amount of savings that resulted from limiting payments to producers who were eligible to receive more than the established $50,000 payment ceiling. Gross savings, according to the study, were about $70 million. The study attributed $66.6 million to general payment limit reductions and $3.4 million to reductions from the three-entity rule and requirements for active engagement in farming. USDA also reported that costs to administer the payment limit amounted to about $21.4 million, for a net savings of about $48.6 million.

In the study, USDA's Kansas City Management Office used its 1989 national data bases to generate listings of all producers who had the potential to receive payments higher than the payment limit. The listings included potential earnings and the actual program payments made to producers. The difference between the two amounts was considered the payment limit savings. USDA's state and county offices verified the accuracy of the listings. USDA headquarters grouped the results into a national total.

In addition, the state and county offices reported their costs associated with the administration of the payment limit rules and regulations. The state costs were $3.1 million and the county costs were $18.3 million for a total of $21.4 million. The difference between the administration costs and the payment reductions resulted in a savings to USDA. USDA did not, however, include the costs of overseeing the payment limit operations at the Kansas City Management Office and USDA headquarters.

According to the study, the payment limit saved about $70 million. This payment resulted mostly from a general payment limit reduction of $66.6 million brought about because some producers controlled enough land to generate payments in excess of the payment limit. However, the producers were only entitled to payments up to the established $50,000 ceiling, and amounts not paid above that ceiling were considered a reduction or a savings in program costs. The remaining $3.4 million resulted from reductions because of the three-entity rule and the requirements for active engagement in farming. The three-entity rule allows an individual to receive payments from only three permitted entities. Individuals who were involved in more than three entities were not paid or entitled to about $2.3 million in additional program payments during 1989. The reduction of $1.1 million resulted from individuals who did not fulfill the requirements for active engagement. Even though individuals participated in a farming operation, their payments were

limited because they had not made significant enough contributions to the operation to qualify for full program payments.

To verify the accuracy of the study, we sampled a total of 132 producers from 26 county offices within 3 different states. We obtained the necessary source documents to support the amounts reported on the listings. We determined that the listings were accurate.

Comments From the U.S. Department of Agriculture

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

OCT 16 1991

Mr. John W. Harman
Director, Food and Agriculture Issues
Resources, Community, and
Economic Development
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Harman:

Now RCED-92-2

This is in response to your draft report RCED-91-189 concerning the effectiveness of efforts to reduce farm payments. We believe that the following comments should be taken into consideration as you prepare the final version of your report.

See comment 1.

The draft report states, in part, that the "...1987 amendments had a very limited effect in reducing payments because they allowed... USDA to require that only 50 percent of the stockholders be actively engaged in farming for the corporation to receive payments...." The amendments made by the Omnibus Budget Reconciliation Act of 1987 (the 1987 Act) to the Food Security Act of 1985 (the 1985 Act) specifically provide that the determination of whether a corporation is "actively engaged in farming" shall be based upon the actions of the corporation as opposed to the actions of the shareholders. Accordingly, the corporation must meet the specified requirements to be considered "actively engaged in farming."

See comment 1.

The draft report also states that "...although the amendments did strengthen the requirement that individual owners of farming operations be actively engaged in farming to qualify for payment, the amendments allowed USDA to require that only 50 percent of the owners of a corporation or other entity provide labor or management to the farming operation...." It is true that present regulations provide that the combined beneficial interest of all the stockholders providing active personal labor or active personal management to the farming operation must be at least 50 percent. However, it is misleading to imply that "...the amendments allowed USDA..." to mitigate any statutory requirement. In fact, the proposed rule published in the Federal Register on April 6, 1988, provided that the combined beneficial interest of all stockholders providing active labor or active personal management for a corporation must exceed 50 percent for the corporation to be considered "actively engaged in farming." Comments which were received on this proposed rule noted that the 1987 Act amendments require only that members collectively make a significant contribution of personal labor or active personal management. Several respondents on the proposed rule, including a member of Congress, were of the opinion that the requirement should be 50 percent, or a lesser percentage, rather than greater than 50 percent. We believe the present requirement is consistent with the intent of Congress when enacting this legislation.

Mr. John W. Harman 2

Currently, for example, a corporation comprised of 10 individuals may be considered to be "actively engaged in farming" even though only one shareholder has provided the requisite amount of active personal labor or active personal management. We agree that the proposal to limit payments to an entity based on the number of individuals in the entity who actually make the significant contributions has merit. In addition, we also support a recommendation to allow contributions of active personal labor or active personal management by the same individual in a joint operation to be taken into consideration only once and, therefore, preclude the individual farmer also contributing active personal labor or active personal management with respect to another person in a joint operation. However, we question the advisability of allowing "...certain high-input farming operations (such as rice farms) to receive larger payments...." It would be inadvisable to provide that a farming operation was a high-input farming operation and entitled to larger payments based solely on the fact that rice is produced on the farm.

See comment 2.

See comment 3.

We support the recommendation to attribute all payments to individuals. In fact, a letter jointly signed by the Director, Office of Management and Budget and the Secretary of Agriculture in 1990 clearly states that position. It is our belief that attribution of all payments to individuals would be the most effective method to simplify and improve the effectiveness of payment limitation provisions.

Sincerely,

John Campbell

Richard T. Crowder
Under Secretary for International
Affairs and Commodity Programs

The following are GAO's comments on USDA's letter dated October 16, 1991.

GAO Comments

1. USDA was concerned that our draft report may have implied that the agency made the regulatory requirement for active engagement for corporations less demanding than the legislation required. We clarified the report to eliminate any such implication. In addition, we clarified how the actively-engaged-in-farming rule applies to corporations.

2. USDA said it would support a recommendation that an individual's contributions of active personal labor or active personal management in a joint operation be taken into consideration only once. According to USDA, this approach would preclude the individual farmer in a joint operation from also contributing active personal labor or active personal management with respect to another person. We agree with the thrust of USDA's suggestion but believe the terms of our matter for congressional consideration cover such circumstances.

3. USDA questioned the advisability of allowing certain farming operations (such as rice farms) to receive larger payments to keep them economically viable. We did not intend to imply that an exception should be made. Such a determination is a matter for the Congress to decide. However, we did want to recognize the argument put forth in the House committee report justifying the three-entity provision on the basis that some farming operations, such as those producing rice, needed more than $50,000 in government payments to be economically viable.

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